

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Housing conditions have improved since 2006 with a 21% increase in the number of residential buildings across the Palestinian Territory. Only 10% of households now live in units with three or more people per room and 15% live in units with only 1-2 rooms. This is down from 19% and 24%, respectively, in 2006.

PADICO launched the first Palestinian corporate bond issue on 10 May. \$70m of capital will be raised. The bonds will mature after five years with a fixed interest rate of 5% for the first 30 months and a variable rate (linked to US Libor) within a 5 - 6.5% range for the remainder of the term.

The 2010 Poverty Survey found that poverty in the Palestinian Territory fell to 18% in the West Bank (from 19% in 2009), and remained unchanged, at 38%, in the Gaza Strip.

The latest survey of Industrial Establishments found that the percentage of Palestinian businesses expecting improved performance in Q2 2011 was 40% higher than those expecting a decline. Conversely, in Q1 2011, 20% more businessmen felt the general performance of their enterprise was worse than those that noted an improvement.

National Development Plan

As reported in last month's Bulletin the new Palestinian National Development Plan (NDP), 'Establishing the State, Building our Future', was presented to international donors by Prime Minister Dr. Salam Fayyad in April. The NDP forms the basis of requests for \$6.8bn of external finance from donors over three years and has been highly praised by the leading international institutions including the World Bank, IMF, and United Nations.¹

The plan is structurally similar to the previous Palestinian Reform and Development Plan for 2008–2010. Development policy and programmes are organised around the four main pillars of governance, social assistance, economic development and infrastructure. In addition there is a review and forecast of the macroeconomic and fiscal framework, a section on public accountability and a detailed expenditure plan for the coming three years.

At a roundtable on 20 April, the Minister of Planning, Dr. Ali Jarbawi, told a group of policy makers, business men and civil society representatives that the NDP differs from previous plans in that it is not solely a government plan.² Instead it is the result of a participatory process that involved extensive consultation with the private sector and civil society organisations. More than 240 meetings were held with over 2,000 experts from outside government participating in the process.

The NDP considers two scenarios – status quo and baseline. The status quo scenario is the more pessimistic and presumes ongoing restrictions to economic development. Under this scenario GDP is forecast to be only 34% higher in 2013 than in 1994. The baseline scenario is much more optimistic. It assumes an independent sovereign Palestinian state will be declared by September 2011, all major obstacles to trade and movement of people will be lifted (including in Gaza), and the required level of funding for the budget will be available.

Under the baseline scenario real GDP is forecast to grow by 9% in 2011 and 12% in 2012, while nominal GDP per capita is expected to increase 50% over the three year period. Unemployment is expected to decrease, 25% to 15%, and the budget deficit is forecast to shrink from 26% of GDP to a mere 4% of GDP by 2013.

¹ See: http://www.mopad.pna.ps/web_files/publishing_file/Establishing%20the%20State%20Building%20our%20Future_%20NDP%202011-13.pdf and April 2011 Bulletin for further background.

² Organised by the Palestine Economic Policy Research Institute (MAS).

The total external financing requirement of \$6.8bn includes \$1.5bn for Gaza reconstruction and \$0.5bn for East Jerusalem, with the remaining \$4.8bn divided equally between budget support for recurrent spending and development assistance.

Year	Budget Support	Development Assistance				Total
		Governance	Social	Economy	Infrastructure	
2011	967	142	142	74	142	500
2012	881	207	283	135	248	873
2013	501	207	385	192	311	1,095
Total Expenditure	2,349	556	810	401	701	2,468

In terms of the economy, the overall objective is to create an attractive investment environment, increase access to and integration with external markets, and enhance the competitiveness of Palestinian products and services. In order to reach these goals, the plan sets out 27 interventions within seven main categories. Example interventions include the development of industrial parks, tourism facilities and a telecoms regulator.

Category	Expenditure 2011 - 2013 \$m
Industrial modernisation & business promotion	116.8
Foreign trade & investment	8.7
Consumer protection	3.2
Employment & worker protection	26.5
Agricultural & rural development	177.9
Telecommunications & IT	15.9
Tourism & antiques	49.1
Total	398.1

At the time the NDP was presented it was expected that a donor conference would take place in June to raise the external finance required for the plan. At the last donor conference (in Paris in December 2007), donor commitments far exceeded the budget required. However, this plan comes at a time of political change with the signing of the reconciliation agreement between the two major political parties in the West Bank and Gaza on 5 May 2011. At the time of writing it was unclear what impact the changing political context would have on the future development plans of the Palestinian Authority and the original plan to hold a donor conference in June.

Improved Housing Conditions

Figures released in April show that housing conditions have improved since 2006. Only 10% of Palestinian households now live in units with three or more people per room, down from 19% in 2006. Average house density,

measured as the number of people per room, has fallen to 1.6 (compared to 1.8 in 2006). In addition, the number of Palestinian households living in only 1-2 rooms decreased significantly, from 24% in 2006 to 15% in 2010 (17% in the West Bank and 13% in Gaza Strip).³

A 21% increase in the number of residential buildings over the period 2007 - 2010 is largely responsible for the improvement in conditions. The total number of residential buildings reached 850,563 in 2010 compared to 701,937 in 2007.⁴ 50% of households live in apartments, 48% in houses and the remainder in villas.

Levels of home ownership remain high with 84% of households living in property they own in 2010. The percentage of households living in rented housing decreased to 9% in 2010 (from 12% in 2006). On average, the cost of renting a property was \$216 per month in 2010 (\$232 in the West Bank and \$154 in Gaza Strip). This is a 33% increase compared to the average rent of \$162 paid in 2006.⁵

Bond Launch

On 10 May the Palestine Development and Investment Company (PADICO) announced the successful issue of \$70m of corporate bonds. According to PADICO the issue is already oversubscribed, reflecting investors' confidence in their ability to repay and the long term sustainability of their investment portfolio.⁶

The CEO of PADICO, Samir Hulileh, told the Bulletin that he hopes other Palestinian companies will follow suit. At the launch event the Palestinian Prime Minister, Dr. Salam Fayyad, welcomed the bond issue and said that it was a demonstration of how far the Palestinian economy had progressed in recent years.

7,000 bonds of \$10,000 will be privately placed with a group of Palestinian and Jordanian banks. A minimum subscription of ten bonds, equalling \$100,000, has been set. Bonds will mature after five years, with a fixed interest rate of 5% for the first 30 months and a variable rate (linked to US Libor) within a 5-6.5% range for the remainder of the term.

The bonds will not be listed or traded therefore they do not have a credit rating. PADICO plan to use the raised capital to fund long term investment projects that include a power generation plant in the northern West Bank, and a real estate and recreation complex in Jericho.

3 See: http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1324.pdf

4 See: http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1737.pdf

5 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Housing_cond_E2010.pdf

6 See: <http://www.ft.com/cms/s/0/5761aad6-7bea-11e0-9b16-00144feabdc0.html#axzz1M531jkwI> and March 2011 Bulletin for background.

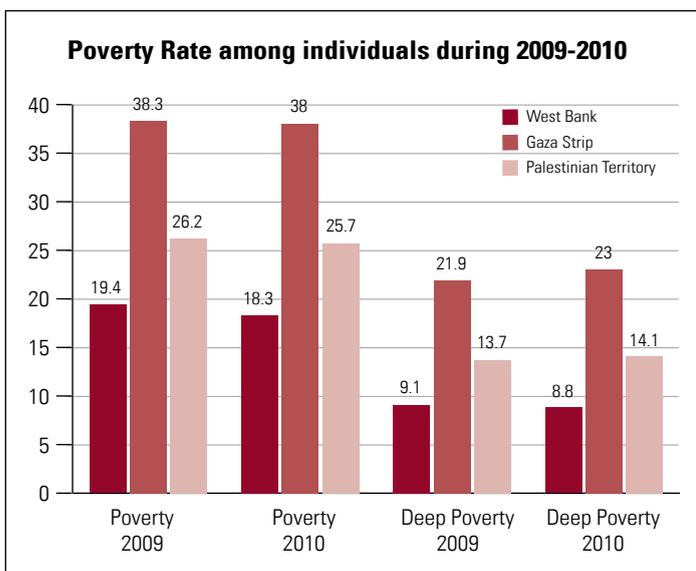
Poverty

The 2010 poverty survey, released on 10 April, showed that 26% of Palestinians were living in poverty in 2010 (18% in the West Bank and 38% in the Gaza Strip).

Poverty in the Palestinian Territory is determined by an individuals' ability to pay for basic goods, including food, clothing, housing, healthcare, education, transport and other essentials. Social assistance payments are included within an individuals' ability to pay and in 2010 the poverty line was set at \$609 per person per year. On this basis poverty has fallen since 2009 in the West Bank (from 19% in 2009) but remained virtually unchanged in Gaza (38% in 2009). Comparison to previous years is not possible as PCBS changed the methodology of measuring poverty this year.

Meanwhile, 14% of Palestinians were living in deep poverty in 2010 which is defined as those Palestinians that are unable to afford food, clothing and housing at an estimated cost of \$478 per person per year. Deep poverty is shown to have increased in Gaza, from 21.9% in 2009 to 23% in 2010.⁷ Without social assistance it is estimated that poverty would reach 31% across the Palestinian Territory (21% in the West Bank and 48% in Gaza).

Poverty Rate among individuals during 2009-2010



Business Confidence

The latest PCBS survey of Industrial Establishments (for the period Q4 2010 and Q1 2011) was published on 27 April.⁸ Results showed a high level of pessimism regarding business activity in Q1 2011. 38% of Palestinian businessmen surveyed felt that the overall performance of their enterprises was worse than Q4 2010, compared to

only 16% who believed it had improved. Results showed similar feelings in the West Bank and Gaza Strip.

The main reason cited for this appears to be a decrease in consumer demand across the Palestinian Territory, in part due to political and economic stability but also inflation and exchange rate fluctuations. In addition businesses reported increased competition from other goods in Gaza and changes in seasonal demand and production in the West Bank.

Businesses surveyed were however much more optimistic when looking forward to Q2 2011. The percentage of Palestinian businesses expecting improved performance in Q2 2011 was 40% higher than those expecting a decline. 57% of business owners and managers anticipated improvement in the general performance of their enterprises, compared to only 17% who felt performance would deteriorate in Q2 2011. West Bank businessmen are more optimistic than their counterparts in Gaza, with 61% expecting an improvement in performance in Q2 2011, compared to 46% in Gaza Strip.

2010 Olive Harvest

The two-year olive cycle culminated in the production of approximately 24,000 tonnes of oil in 2010. This is an increase of approximately 35% compared to 2008, when poor weather and movement restrictions affected the harvest. It is, however, still 30% below the peak harvest of 2006.⁹

Over 100,000 tonnes of olives were harvested and pressed at an extraction rate of 23%. This is up from 21% in 2006, demonstrating an improvement in the process. Approximately 1,500 people were involved in the olive pressing process generating a total wage income of \$1.1m. Total output of the sector reached \$11.2m in 2010, up from \$7.8m in 2008

65% of olives came from the northern areas of the West Bank whereas Gaza produced 10% of olives in 2010. The remaining 25% of olives were harvested in the middle and south of the West Bank.

Industrial Production

Industrial production in the Palestinian Territory increased by over 6% in the first three months of this year. The industrial production index, released by the Palestinian Central Bureau of Statistics on 4 May, reached 106.13 in March (base year January 2011). Industrial production consists of manufacturing (80%), mining and quarrying (15%) and utilities (5%).¹⁰

⁷ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/poor_E2010.pdf

⁸ Until January 2010 PCBS surveyed Industrial Enterprises on a monthly basis. From Q4 2010 onwards surveys have only been conducted on a quarterly basis. For the latest release see: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Owners_Q12011E.pdf

⁹ http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Oli_Pres_2010e.pdf
¹⁰ See: <http://www.pcbs.gov.ps/DesktopDefault.aspx?tabID=3355&lang=en>

Company Profits

Companies released their preliminary financial results for Q1 2011 with 34 out of 44 reporting profits.¹¹ The largest profits were recorded by Palestine Telecommunications (\$38.49m), the Bank of Palestine (\$13.7m), the Palestine Development and Investment Company (\$9.84m) and Al Quds Bank for Development and Investment (\$1.81m). Both Palestine Telecommunications and Bank of Palestine increased their profits compared to Q1 2010, by 15% and 57% respectively. Four companies – the Jerusalem Cigarette Company (JCC), AL-Takaful Palestinian Insurance (TIC), Palestine Islamic Bank (ISBK) and Nablus Surgical Center (NSC) - turned Q1 2010 losses into profits in Q1 2011.¹²

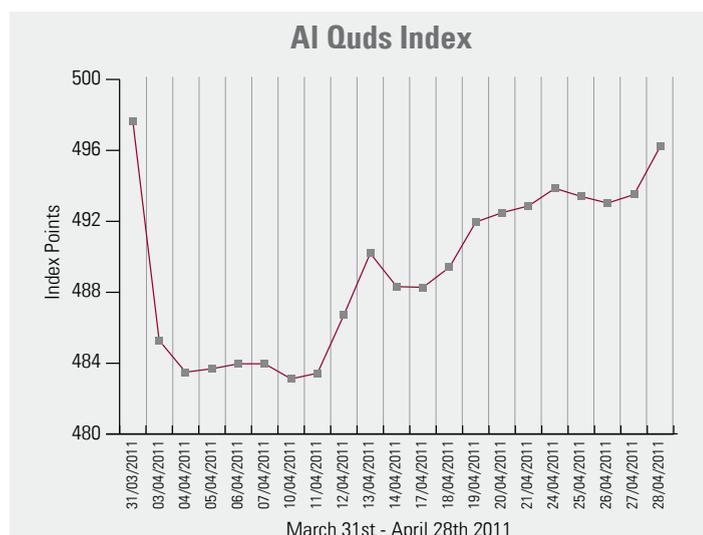
April Trading

The Al Quds index fell to 483.12 points on 10 April but ended the month only marginally down, at 496.25 points, compared to the end of March 2011.¹³

Trade volume increased by 37% compared to March 2011, with 22.6m shares changing hands in 20 sessions. The value of traded shares also increased, by 38%, to reach \$42.3m. The significant increase in activity in April was driven by a high level of trading in PALTEL and PADICO stocks (9m of their shares were traded with a value of approximately \$20m). Market capitalisation stayed stable at around \$2.8bn.

There are now 45 companies listed on the Palestine Securities Exchange, up from 40 in May 2010. Recent listings include the Global United Insurance Company (GUI), Palestine Mortgage and Housing Company (PMHC) and Al Aqariya Trading Investment (AQARIYA).¹⁴

The best performing shares in April were the Golden Wheat Mills (GMC) and Palestine Development and Investment Company (PADICO) which increased by 39% and 15% respectively.



11 One Company – the suspended Al-I'Timan for Investment and Development Company (IID) - did not provide its financial results for Q1 2011.

12 See: <http://www.pex.ps/PSEWebSite/NEWS/Disclosure-1st-Quarter--2011.docx> (English version currently unavailable).

13 See: <http://www.pex.ps/PSEWebSite/NASHRA/20110430.pdf>

14 See <http://www.sahem-inv.com/reports/researches/ar/20110412154735.pdf> and <http://www.sahem-inv.com/reports/researches/en/20110330144914.pdf>

The Portland Trust



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